



The Secretary of Energy
Washington, DC 20585

April 13, 2001

The Honorable Bill Morrow
California Senate
State Capitol, Room 4048
Sacramento, CA 95814

Dear Senator Morrow:

In response to a number of inquiries from Members of Congress and the California Legislature, and in light of recent discussions of possible Federal legislation addressing energy issues in the West, and particularly California, I thought it would be helpful to provide you with a Federal update on the crisis.

First, it is important to note that this crisis is a supply crisis. Simply put, the principal problem – and thus the proper focus of our attention – should be on the problems of the blackouts and shortages. Proposed solutions that do not either lead to increased supply or reduced demand will not go to the core problems confronted in the West.

Thus, the Administration has taken a number of actions to support California in its efforts to address critical supply issues.

- One day after being sworn into office, the President directed me to call Governor Davis to discuss the crisis and ask how we could help address the power shortages.
- Three days after taking office, at Governor Davis' request, we extended the emergency electricity and gas orders to give California time to develop legislation aimed at maintaining electricity supplies.
- In February, also at the request of Governor Davis, President Bush issued an executive order directing Federal agencies to expedite permits relating to construction of new power plants in California. The U.S. Environmental Protection Agency has issued air permits for three power plants in the past month.
- President Bush and I have engaged in discussions with the Government of Mexico about increasing electricity imports from Mexico. DOE is also working expeditiously to approve several cross-border electricity expansions between California and Mexico.



- In early March, at the behest of Governor Davis, I sent a letter to the Federal Energy Regulatory Commission (FERC) asking that the Agency act on his request for an extension of the waiver for qualifying facilities from certain fuel requirements.
- In response to a request from the State of California, the U.S. Environmental Protection Agency has provided other assistance, clarifying rules relating to operation of backup generators.
- While the imbalance between supply and demand is the reason for high energy costs and power shortages, the Bush Administration was the first to take action on overcharges. FERC took unprecedented action and ordered the first-ever refunds to address overcharges by generators on market-based rates after we took office and after a Republican took over as Chairman.
- On March 14, FERC issued a series of orders designed to expedite energy supplies to California, including streamlining regulatory procedures for wholesale power sales, expediting natural gas pipelines, and urging hydropower licensees to assess the potential for increased hydropower generation.
- As follow up to a meeting with Governor Davis, I issued a letter indicating that the Administration did not oppose the State's proposed purchase of the California utility transmission systems, conditioned on the adherence to open access requirements.
- Just two weeks ago, I met with a group of California energy suppliers to impress upon them that the next several months should not be viewed as "business as usual" and to ask for their help to avoid foreseeable disruptions in supply.
- Last week, I met with a group of electricity experts to discuss the California electricity crisis and to explore actions that could be taken by the Federal government and State to increase supply or reduce demand.

As you can see, the Administration has taken constructive action from its first day to help California deal with its electricity crisis. Governor Davis has expressed his appreciation to both the President and me for this help.

Regrettably, our well-founded opposition to price caps has been claimed by some to suggest the Administration either does not care about California and the West or is doing nothing to address the problem. Certainly, the actions described in this letter show this is simply untrue.

The only thing we have opposed has been the imposition of price controls because they would not prevent blackouts and would drive away the new supply California and the

West so badly need. The Administration is not alone in its opposition to price caps. In February, eight of the eleven Western Governors sent me a letter expressing their opposition to price caps. Those eight Governors reiterated their opposition in an April 6 letter to FERC Chairman Curt Hebert, calling them "penny wise and pound foolish."

By contrast, advocates of price controls have failed to indicate how price caps would increase supply, decrease demand or prevent blackouts this year.

I appreciate the opportunity to brief you on the numerous actions the Administration has taken since our first day to support California. Please be assured that we will continue to look for constructive ways to remove obstacles to new electricity supply in California and the West.

Sincerely,

A handwritten signature in blue ink, reading "Spencer Abraham". The signature is fluid and cursive, with the first name "Spencer" and last name "Abraham" clearly legible.

Spencer Abraham